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MASTER OF MILITARY STUDIES

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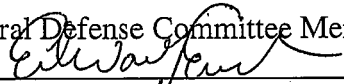
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## **Executive Summary**

**Title:** Primary Commodity Dependency: A Limiting Factor for Achieving Democracy

**Author:** Major James S. Pryor

**Thesis:** Primary commodity dependency is one of the greatest challenges for democratic transitions; reliance on a limited number of agricultural crops or mineral as exports for generating state revenue limits economic development and resiliency necessary to sustain a democracy.

**Discussion:** Transition from autocracy to democracy requires significant change in governance. Corruption and repression must give way to open democratic institutions, processes, and values. Furthermore, these institutions, processes, and values must be accepted and sustained until they are considered legitimate in the eyes of both the masses and elites. National wealth and economic growth of a nation are critical in the early stages of a democratic transition. Providing members of society economic opportunities and representation into the social, economic, and political affairs of the state must be a priority for transitioning regimes. Limited revenue generation of primary commodity dependent economies hinders the improvement of socio-economic conditions and development of infrastructure necessary to diversify all sectors of the economy. Five phenomena associated with primary commodity dependency pose a challenge to successful democratic transitions. These phenomena include: rentier economies and elite maintenance, “Dutch disease”, susceptibility to shocks and disasters, conflict due to the “Natural Resource Curse”, and the military politicization. These phenomena, occurring independently or concurrently, can intensify social, political, and economic tensions spoiling the potential for democratic transitions.

**Conclusion:** Leaving autocracy is not the same as entering democracy. Transition to consolidated democracy is often long, uncertain, and instable. Research shows that democratic transitions are twice as likely to end in regression back to an autocratic regime.

Democracies are based upon resilient social, economic, and political systems. Democratic transitions must achieve political, social, and economic inclusion as well as open and representative governance. The United Nations has and will continue to develop the conditions necessary to promote and sustain democracy, but to succeed, the masses and elites within a country must strive for the common goal of consolidating democracy.

Phenomena associated with primary commodity dependency exacerbate typical challenges faced during democratic transition. It is highly likely that tensions caused by these phenomena will continue to cause conflict and suffering in developing countries. Sound leadership, economic growth, increasing national wealth, improving social conditions, and expanding opportunity across society are necessities for overcoming the phenomena associated with primary commodity dependency. Military professionals should use the information in this paper to better understand the social, economic, and political dynamics and challenges associated with sustaining democracy in primary commodity dependent economies.

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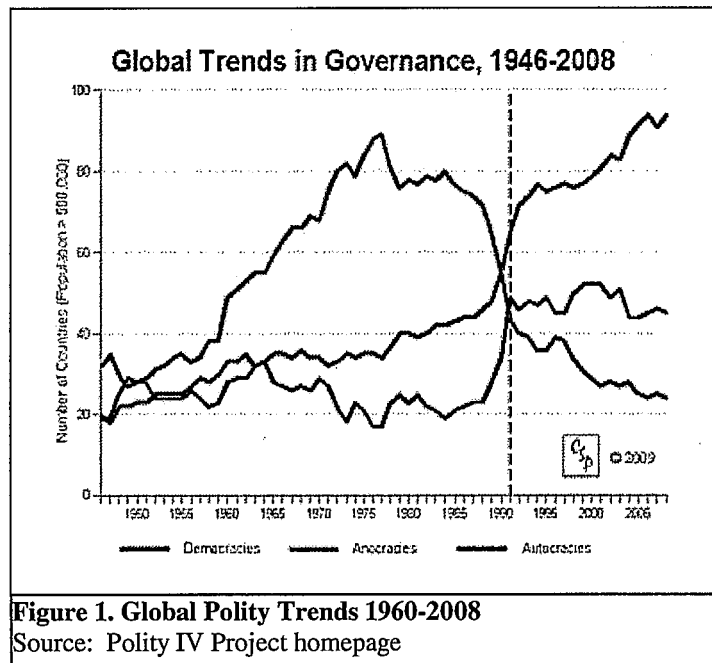
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## *Preface*

This paper examines how democratic transitions in states with primary commodity dependent economies are prone to failure. Countries that rely on primary commodity exports for generating the majority of state revenue experience several phenomena that limit the ability to consolidate and legitimize democracy. I chose this topic to expand my understanding of social, political, and economic factors relating to the spread of democracy. The volume of research and literature relating to failed democratic transitions and resulting conflict is significant. Primary commodity dependent states that are overly reliant on resources such as oil and natural gas are likely to be the source of future conflict. Military professionals should capitalize on available research to gain an appreciation for the interdependent social, political, and economic challenges facing nations attempting to modernize and transition to democracy. Resource-related conflict, humanitarian disaster, and weak states will continue to demand political and diplomatic attention and increasingly will require military intervention to protect U.S. national interests.

Most of all I want to thank my wife, Jill, and children for their enduring support through this process. Additionally, I would like to thank Dr. Pauletta Otis for identifying this research topic and her initial guidance in starting my research.

The purpose of this paper is to examine how primary commodity dependency causes democratic transitions to fail. Since 2000 the global trend in governance indicates an increase in democratic regimes and a decrease in autocratic regimes.<sup>1</sup> This should not be a surprise considering the United Nation's focus on setting conditions for the spread of democracy by promoting social development and good governance to improve basic human rights and reduce poverty.



Democracy will result in political, economic, and social resiliency over the long-term; however, transitioning regimes and societies must possess a desire to persevere over short-term political, social, and economic challenges to achieve stability. Transition from autocracy to democracy necessitates radical change in governance. Often changes in governance result in negative political, social, and economic consequences distributed unevenly across society. These negative consequences can increase grievances and instability causing a democratic transition to stagnate or back-slide to autocracy. Entrenched autocratic regimes in many poor or developing countries find it excessively costly and risky to implement and sustain economic reforms and governance necessary for a stable democracy.<sup>2</sup>

Leadership is a critical factor for a successful democratic transition. A democratic transition must encompass expanded opportunities for members of society to contribute to and participate in the economic, political, and social affairs of the state. Responsible leadership and effective



policy-making must implement economic and socio-political policies that contribute to the public good. Sound leadership must ensure economic growth and economic diversity as prerequisites for a successful democratic transition.

Reliance on commodity resources creates a significant economic challenge for democratic transitions. Dependency on a few commodities for generating state wealth through export revenues limits economic diversity and opportunity.

Economies that rely on one or two agricultural crops, minerals, petroleum, or fisheries can be considered

**GDP**— The basic measure of a country's overall economic output. It is the market value of all final goods and services made within the borders of a country in a year.

primary commodity dependent. Tea, coffee, and cocoa; peanuts and cotton; diamonds and other precious minerals; and petroleum or gas are all examples of commodities that a country may depend on for primary export revenue. Over time, primary commodity dependency produces an unbalanced Gross Domestic Product (GDP), between the agricultural, industrial, and services sectors. An unbalanced GDP limits economic growth and diversity reducing employment opportunities, social services, and infrastructure development. Primary commodity dependency is one of the greatest challenges of democratic transitions; reliance on a limited number of agricultural crops or mineral exports for generating state revenue limits economic development and resiliency necessary to sustain democracy.

## BENEFITS OF DEMOCRACY

This paper is not concerned with what triggers democratic transitions. Instead, it focuses on how primary commodity dependency affects governments that have chosen to transition from autocracy to democracy. Democratic transitions occur for many reasons, but the purpose is universal -- to achieve the benefits of a stable, consolidated democracy. The primary benefits of a consolidated democracy are representation and opportunity.

Representation includes the ability of individuals within a society to influence government leadership, decision-making, and policy through elections and open, transparent governance. Properly implemented democratic processes and institutions ensure accountability of elected officials to the whole of society rather than a small part of society or non-state constituents.

Democracy is also based on opportunity. The United Nations Human Development Report identifies opportunity as, “enabling people to reach their potential as human beings. Real opportunity is about having choices—the choices that come with a sufficient income, an education, good health and living in a country that is not governed by tyranny.”<sup>3</sup> Creating opportunities for members of society increases the likeliness of economic output, generation of wealth, and economic diversification. Opportunities are increased with the improvement of social conditions, infrastructure, communications networks, public health, and education. Governments committed to sustaining democratic practices are more likely to obtain support from the international community and United Nation (UN), increasing the chances of a successful transition.

The United Nations acknowledges the benefit of democracy and has been its champion for the last several decades. The United Nations Charter does not cite “democracy” directly, but it is a universally accepted value. It has emerged as a cross-cutting topic at every major United Nations summit and conference since the 1990s.<sup>4</sup> Since 1988 the United Nations General Assembly has passed at least one resolution annually dealing with some aspect of democracy. The internationally accepted Millennium Development Goals (MDGs) promotes outcomes which strengthen democratic processes. The MDGs along with globalization set the conditions over time for societies to choose democracy over other forms of government. Members of the United Nations at the World Summit in September 2005 reaffirmed “democracy is the universal value

based on the freely expressed will of the people to determine their political, economic, social, and cultural systems and their full participation in all aspects of their lives.”<sup>5</sup>

Democracy is also an integral aspect of globalization. Henry Teune in the article “Global Democracy” states “without democracy, globalization could not continue in a peaceful, orderly fashion.” He added that democracy is the bedrock of prosperity promised by globalization.<sup>6</sup>

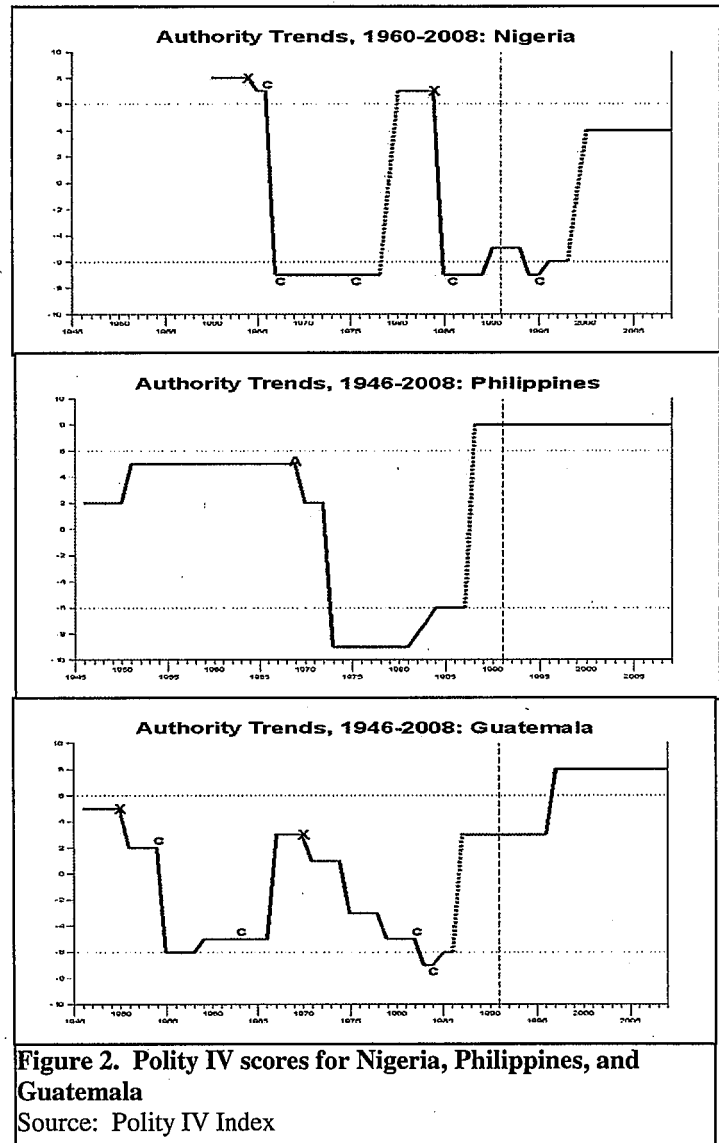
### PATH TO DEMOCRACY

Although the international community, through the United Nations, agrees that democracy is necessary, there is no single definition or single form of democracy. Therefore, democracies may exist in varying degrees. Transition, between forms of government, results in radical change within the economic, social, and political systems of a state. Adjusting variables to create favorable conditions within these systems can make democratic transitions difficult, slow, and unpredictable. As a result, polity within a country may fluctuate between degrees of democracy and autocracy depending on its unique situation. Measuring the degree of polity over time reveals a variety of paths that countries may take when transitioning to democracy.

Since there is no single definition of democracy there is also no consensus on how to measure democracy. Several indices have been developed for comparative and quantitative analysis. Two indices that measure democracy are the U.S.-based Polity IV Project Index and United Kingdom-based Economist Intelligence Unit (EIU) democracy index.<sup>7,8</sup> Another index is the Country Indicators for Foreign Policy (CIFP) Index developed by Canada’s Carleton University. The CIFP indexes democratic processes as one of its six categories of good governance.<sup>9</sup> These indices use indicators to measure aspects of democracy and good governance and provide a method of tracking change over time.

The Polity IV Project is the most suitable model for this paper because it measures changes in regime type, authority characteristics, and it has a more extensive historical archive. The database reports on 162 countries, and it is the most widely used data resource for studying regime change and effects of regime authority. The Polity IV Project measures state authorities based on key qualities of: executive recruitment, constraints on executive authority, and political competition.

The Polity IV Project data is constantly monitored as an integrated element of the United States Government's Political Instability Task Force (PITF). Data is scrutinized and examined by analysts and experts in academia, politics, and the intelligence community. The Polity IV Project ranks regime authority for each state annually on a 21-point scale. Negative 10 (hereditary monarchy) to negative 6 is considered an autocracy, negative 5 to positive 5 is considered an anocracy, and positive 5 to positive 10 (consolidated democracy) is considered a democracy.<sup>10</sup> Anocracy is the term used to describe a regime type that possesses both autocratic and democratic processes and institutions



simultaneously but in varying degrees. An anocracy is a transitional regime that utilizes a combination of democratic and autocratic elements of government.

Viewing the Polity IV index for a country over time reveals unique paths experienced by countries during a democratic transition. As expected, interactions amongst variables within the non-linear economic, political, and social systems produces non-linear results. The path of democratic transition for each state is unique based on its unique non-linear variables. Figure 2 highlights several different transitional paths. For example, in several Southeast Asian countries democracy took root with economic growth, only to falter after several economic shocks. Many Asian countries sustained an economic boom by maintaining state-owned enterprises rather than liberalizing their economies. These Asian countries were able to achieve economic success at the expense of political repression and limited civil liberties.<sup>11</sup> This example highlights the interdependence of political, social, and economic variables and their unpredictable impact on state polity scores.

**Per capita GDP** – Amount each individual receives, in monetary terms, of the yearly income generated in the country. This is what each citizen is to receive if the yearly national income is divided equally among everyone. Per capita income is often used as a measure of the wealth of the population of a nation.

Competition for political power, wealth, and social privilege in a primary commodity dependent state makes transition from anocracy to democracy uncertain and unstable. Research analyzing Polity IV index scores and economic wealth, measured by per capita GDP, has indicated some correlation between democratic transitions and regime stability. Lack of economic diversity and development stemming from primary commodity dependency exacerbates the challenge for anocracies during democratic transition. Trends since the end of the Cold War reveal that many newly formed democracies have regressed to anocracies only to

be hijacked by regimes catering to political and business elites resulting in greater economic, political, and social instability.<sup>12</sup>

## “GOOD GOVERNANCE” AND DEMOCRACY

To understand how democratic transitions create uncertainty and instability for autocratic or anocratic regimes it is necessary to understand the concepts of “good governance” and democracy. “Good governance” is an ideal based on responsible governance that encompasses the following eight characteristics: participation; consensus; accountability; transparency; responsiveness; effectiveness and efficiency; equitability and inclusiveness; and the rule of law.<sup>13</sup> “Good governance” has several key aspects.

One aspect is that “good governance”, in a democratic form of government, is more than just democratic processes such as voting and acknowledging elected officials. Democratic processes may be the bedrock, but they are only one element. The CIFP Handbook outlines focus areas of “good governance” as: rule of law; human rights; political stability and violence; democratic participation; government and market efficiency; and government transparency and accountability.<sup>14</sup> Fully implementing democratic processes with measures from other focus areas is the most effective way to sustain “good governance” and political stability.<sup>15</sup>

A second aspect of “good governance” is that it is a prerequisite for effective development in all sectors of society.<sup>16</sup> Countries that achieve “good governance” show higher economic growth rates, higher overall and per capita GDP, and improved social and health services. The CIFP Handbook describes governance as encompassing the processes, institutions, and outcomes of decision-making and policy implementation related to social, economic, and political affairs.<sup>17</sup> Good governance is an evaluative term implying that decision-making processes include a

number of desirable qualities, including transparency, inclusiveness, professionalism, and effectiveness; as well as policies to achieve a number of desired effects, including increased equality of opportunity, respect for civil and political rights, economic development, poverty reduction, political stability, and individual security.”<sup>18</sup>

The last aspect of “good governance” is that it is measured based on outcomes consistent with various internationally recognized benchmarks. “Good governance” is measured and tracked based on specific indicators within each focus area.

Unlike “good governance”, democracy is less defined. However, sustained democracy has several essential parameters. The parameters for democracy are drawn from several universally accepted sources. One source is the United Nations Article 21 of the Universal Declaration of Human Rights which states

- “(1) Everyone has the right to take part in the government of his country, directly or through freely chosen representatives.
- (2) Everyone has the right to equal access to public service in his country.
- (3) The will of the people shall be the basis of the authority of government; this shall be expressed in periodic and genuine elections which shall be by universal and equal suffrage and shall be held by secret vote or by equivalent free voting procedure.”<sup>19</sup>

A second source is the United Nations Economic and Social Council in 2006 which provided the following definition for democracy as a form of government:

“Democracy is often implemented as a form of government in which policy is decided by the preference of the real majority (as opposed to a partial or relative majority of the citizens) in a decision-making process, usually elections or referenda, open to all.”<sup>20</sup>

A third source is the United Nations Democracy Fund (UNDEF) which characterizes a democracy by the following elements:

1. Constitutional design/reform
2. Electoral processes
3. Parliamentary processes
4. Justice and rule of law
5. Human rights and freedom of expression and association

6. Civil society participation
7. Existence of political parties
8. Access to information and transparency
9. Accountable executive and public administration.<sup>21</sup>

Henry Teune provides an excellent model to conceptualize how democracies can exist in varying degrees. He describes the transition to consolidated democracy in four stages of democratic development. The first stage is an inclusionary democracy which brings individuals into political systems on a minimal basis of political equality. This may be done individually or through groups. The second stage is a participatory democracy in which rights to join organizations and voting is universal. In this stage national and trans-national political linkages provide better capability to advance political movements. The third stage is distributive democracy in which systems of welfare provide material means for social and human development. This stage grows from providing baseline nutrition and education to distributing resources and technical training to expand individual vocational talents. The fourth stage is substantive democracy which includes the qualities of a good and just democratic polity. Democracy during this stage must be decentralized and characterized as open and transparent.<sup>22</sup> Progression through these stages of democratization leads to legitimacy of democratic institutions. Broadening legitimacy sets the conditions for democratic consolidation.

Larry Diamond defines consolidation as “broad and deep legitimization, such that all significant political actors, at the elite and mass levels, believe that the democratic regime is the most right and appropriate for their society, better than any other realistic alternative they can imagine.”<sup>23</sup> Diamond describes three dimensions of political development necessary for consolidation. The first is democratic deepening in which institutions and processes become more liberal, accessible, and accountable. The second dimension is that political behavior becomes more recurrent and predictable. The third process includes regime performance in



which regimes produce positive policy contributing to the legitimacy of the democracy.<sup>24</sup>

Consolidation is more than simply maintaining democratic institutions, holding elections, transitioning regimes periodically. For example, the United States is considered a consolidated democracy by both the Polity IV index and the EIU

Democracy Index. The Polity IV index ranks the U.S. a perfect +10 based on regime authority and executive recruitment, while the more comprehensive EIU index scores the U.S. at 8.22 out of 10. The EIU index considers additional factors such as rule of law and human rights. This ranking places the U.S. at 18<sup>th</sup> in the world, below countries like Sweden, New Zealand, Canada, and Spain.<sup>25</sup> This example shows that many factors are considered in measuring a country's degree of democratization. The only way to consolidated democracy is if the elite and masses work towards the

	Rank	Overall score
Full democracies		
Sweden	1	9.88
Norway	2	9.68
Iceland	3	9.65
Netherlands	4	9.53
Denmark	5	9.52
Finland	6	9.25
New Zealand	7	9.19
Switzerland	8	9.15
Luxembourg	9	9.10
Australia	10	9.09
Canada	11	9.07
Ireland	12	9.01
Germany	13	8.82
Austria	14	8.49
Spain	15	8.45
Malta	16	8.39
Japan	17	8.25
United States	18	8.22
Czech Republic	19	8.19
Belgium	20	8.16

Figure 3 : EIU's 2008 Democracy Index Top 20 ranked countries.

Source: EIU 2008 Index of Democracy

same goal. However, the difficulty of transitioning to democracy especially with primary commodity dependency is clearly evident in Africa as only two countries have been able to sustain good governance and democratic rule despite several waves of democracy sweeping over the continent in the last 50 years.<sup>26</sup>

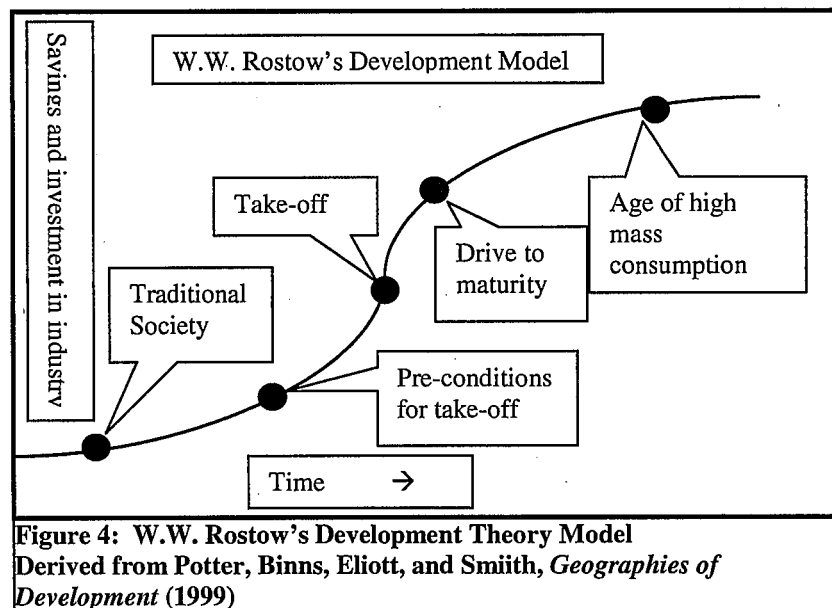
Teune explains that most regimes openly subscribe to the principle that they should improve their people's lives.<sup>27</sup> Although this is openly declared by most governments, autocratic and many anocratic regimes throughout the world fail to pursue this agenda because of primary commodity dependency. Countries with responsible and effective governance benefit from

globalization and democratization working towards “extensive inclusion and greater equality among components from the international to individual level.”<sup>28</sup> On the other hand, corrupt regimes in primary commodity dependent states forsake a long-term strategy of development, debt reduction, and economic growth for short-term personal gains. By monopolizing political influence, military power, and economic resources corrupt regimes can enrich elite constituents at the expense of the rest of society.

## ECONOMIC DEVELOPMENT, DEMOCRATIC TRANSITIONS, AND COMMODITY DEPENDENCE

Seymour Martin Lipset first demonstrated the connection between development and the likelihood of democracy

through statistical analysis in 1959. His hypothesis was “the more well-to-do a nation, the greater the chances that it will sustain democracy.”<sup>29</sup> In other words the higher a nation’s per capita GDP the greater its chances of sustaining



democracy. In 1960s, economists, associated democratization to a developmental process. For example, Walt Whitman Rostow outlined a 5-staged economic development model to explain modernization through a rise in per capita income, a decline in agrarian economy, and a rise of urban industry.<sup>30</sup> Statistical research through the next several decades related democratization with other social variables such as the rise and political inclusion of the middle class.

Several decades of studying democratic transition and analysis of economic reporting has enabled researchers to expand upon Lipset's Modernization Theory. A 1997 study by Adam Przeworski and Fernando Limongi Neto indicated a correlation between per capita GDP and regime type. Their study involved 224 regimes within 135 countries between 1950 and 1990. They stated "democratic transitions are increasingly likely as per capita income of dictatorships rises but only until it reaches a level of about \$6,000. Above that, dictatorships become more affluent and resultantly more stable."<sup>31</sup> They also noted that autocratic regimes typically succeed one another in countries with per capita GDP of less than \$1,000.<sup>32</sup> Their findings associated autocratic regime stability with either modernized levels of state wealth, slightly over \$4,115 USD per capita GDP, or severe state-sponsored repression. Their study revealed the chance of democratic transition increased as autocratic regime instability increased while state per capita GDP rose between \$1,000 and \$6,000.<sup>33</sup> Przeworski and Limongi's research revealed that only 19 of 123 authoritarian regimes actually achieved stability by reaching modernity. Instability within the other non-modernized states may have set the conditions for societies to demand democratic transitions. However, democracies are also quite unstable without sustained economic growth or development. The 19 states that reached modernity remained authoritarian long after reaching the threshold of modernization.

Przeworski and Limongi concluded,

"Democracy is or is not established by political actors pursuing their goals, and it can be initiated at any level of development. Only once it is established do economic constraints play a role: the chances for the survival of democracy are greater when the country is richer. If they succeed in generating development, democracies can survive even in the poorest countries."<sup>34</sup>

Przeworski and Limongi hypothesized that democratic transitions occurred randomly; however, once established, countries with a higher per capita GDP remained democratic.<sup>35</sup> This research dismissed a causal relationship between rise in per capita GDP and democracy.

In 2006 David Epstein et al. published an article, “Democratic Transitions” which pointed out that Przeworski’s research design only tested for two regime types – democratic or autocratic.<sup>36</sup> Epstein et al. accounted for anocracies as the third type of regime. They retested Przeworski’s data with a trichotomous measure of regime type. Epstein et al. concluded “leaving autocracy is not the same as entering democracy.”<sup>37</sup> He also stated that anocracies are poorly understood, shape contemporary politics, and act in a distinct manner from fully institutionalized democracies and autocracies.<sup>38</sup> Przeworski and Limongi noted the relation between national wealth and regime stability, but Epstein et al. identified that it is actually anocratic regimes in poor countries that tend to be the most unstable and potentially troublesome type of regime. Poorly led anocratic regimes can potentially produce the weakest states and most corrupt states while maintaining the claim of legitimacy in the eyes of the international community.

#### PRIMARY COMMODITY DEPENDENT ANOCRACIES AS WEAK STATES

Research shows that political stability is more commonly associated with autocratic or democratic regime types, especially when a nation is wealthy. Conversely, anocratic regimes, especially poor ones, face great political, social, and economic instability. Change introduces risk as both government and society adjust to new processes based on opportunity, transparency, and accountability. Changes weaken formal institutions and informal networks as the balance of power and distribution of wealth are adjusted.

Many anocracies can be categorized according to William Reno’s definition of “weak states”. “Weak states signify a spectrum of conventional bureaucratic state capabilities that

exists alongside (generally very strong) informal political networks.”<sup>39</sup> He explains, “Officials choose to exercise political control through market channels, rather than institution building.”<sup>40</sup> Primary commodity dependent countries face even more acute challenges since political, economic, and social competition is intensified due to lack of diversity and opportunity. Building national wealth, improving human development conditions, and expanding government services may take longer to achieve in primary commodity dependent states. Elites and masses alike may lack the patience for long-term reforms. This may result in a loss of public confidence, and removal of political leaders to satisfy social and economic grievances. Regimes governing primary commodity dependent states find it difficult to increase national wealth and improve social conditions to a level necessary for rapidly legitimizing democracy. Social, political, or economic factors often contribute to stalling a democratic transition or a regime backsliding to authoritarianism. Five phenomena typically to accompany primary commodity dependency limiting the sustainability of democratic transitions. These phenomena include: rentier economies and elite maintenance; “Dutch disease”; susceptibility to “the natural resource curse”; susceptibility to shocks and disasters; and the military politicization. These phenomena can exist independently, consecutively, or concurrently. These phenomena increase instability by creating social, political, and economic tension with the potential to derail democratic transitions.

#### RENTIER ECONOMY AND ELITE MAINTENANCE

“Even leaders who want to undertake reform find that the state has been hollowed out—it is unable to implement even the most basic policies and has been taken over by rent-seeking and corrupt practices”<sup>41</sup>

One phenomenon that accompanies primary commodity dependent states is rentier economies. To fit into the global economy, developing nations sell excess commodities as

exports to more developed nations in return for trade revenue, or rent. Resource rich states can become more dependent on rent than taxation based on a balanced economy to generate state revenue. The dependency cycle is perpetuated as regimes forego development and economic diversity and use rent revenues primarily to support government institutions and infrastructure to sustain the rent-producing supply chain. Commodities can be renewable or non-renewable. Petroleum, diamonds, cocoa, bananas, coffee, and timber are just a few of the commodities that have resulted in rentier economies.

Rentier economies tend to benefit elites more than the middle class or poor. Official export trade is tightly controlled by the state through trade agreements and state-owned enterprises. By monopolizing trade, political elites can regulate production prices and trade volume to control a steady flow of revenue. Monopolizing control of rent-producing exports allows regimes to centralize power and become less accountable to society. Elites influence policy and government spending for personal gain or enjoyment while depriving economic benefits to the rest of society. Lack of social and economic development limits opportunity creating widespread poverty and a welfare society. Distribution of welfare from the government, through regional and local constituents, creates a society in which elites can prey on the dependent masses.

Distribution of wealth, aid, privilege, or support to constituents, or clients, is a form of patronage. A patronage system typically requires a steady stream of revenue to nourish a client base. The legitimacy of political elites is based on the ability to sustain the clientele on which their power rests. A patronage system is usually informal but can have as much or more influence on politics, economic, and society as formal institutions. Patronage networks provide an economical and informal method of buying compliance and establishing control and influence at the local, regional, and national level.

In commodity dependent states competition for patronage is considered an all-or-nothing affair for two reasons. One reason is that many commodity dependent states retain the mentality of former colonies. The techniques used by colonial powers to control deeply divided societies has resulted in the acceptance of brutality and repression to maintain power. Smaller groups are likely to be politically and economically marginalized by larger groups. Patronage allows smaller groups to be incorporated into a larger group. Patronage networks limit the options of individuals binding them to groups and a hierarchy of power and wealth at the local, regional, and national level. "Without options, individuals must be loyal to a group to survive."<sup>42</sup> The second reason is that revenue is usually limited in a commodity dependent state. Constituents constantly jockey for advantage over each other to capitalize on limited resources and improve their prestige. In Africa, political elites fancy themselves as 'Big Men' trying to control networks through patronage.<sup>43</sup> Larger networks require more resources, forcing regime leaders to monopolize power and economic resources to maximize revenue and support the patronage network supporting his rule.<sup>44</sup> Political stability is managed through the patronage of elite political, business, and military constituents rather than through democratic institutions functioning on behalf of the entire society.

What do rentier economies, elite maintenance, and patronage have to do with sustaining democracy? Democratic transitions are very sensitive to economic crisis.<sup>45</sup> In many commodity dependent rentier states the majority of wealth is maintained by very few elites. Elites are likely to resist a transition if they perceive a threat to their favorable status. Elites are more capable of generating support to sustain democratic development or derail a democratic transition than are the uneducated and poverty-stricken masses. Retaining a primary commodity dependent economy may be a strategy used to maintain the opportunity to extract fortunes and privilege

from resource rents at the expense of the rest of society and the environment. Patronage systems also generate opportunities for corruption. Corruption is an endemic problem and has become an integral part in primary commodity dependent states.

Corruption is the use of activities for personal gain. Both elites and the masses can exploit corruption to compensate for severely limited economic opportunity. Although corruption is impossible to eliminate from any form of government or regime, endemic or sanctioned corruption is against the ideals of open and transparent governance. When informal patronage networks and processes are more legitimate than formal governing institutions and processes, the environment is ideal for corruption. Anyone in a position of power is capable of using corruption such as bribery, extortion, and smuggling for personal gain or to benefit their constituents. When corruption becomes endemic within an economy, change to open and transparent government will likely generate retaliation from people and groups relying on corruption for survival.

### “DUTCH DISEASE”

“Dutch disease” is another phenomenon associated with primary commodity dependent economies. The term “Dutch disease” originated in the 1970s when the discovery of oil in the Netherlands created a boom in the oil sector drawing capital and labor out of all other economic sectors.<sup>46</sup> “Dutch disease” occurring before, during, or after a democratic transition may increase primary commodity dependence, worsen economic conditions, and increase political instability. “Dutch disease” is problematic for a primary commodity dependent nation for several reasons.

First, “Dutch disease” can crowd out labor markets as workers abandon other economic sectors for better pay and job stability. Migration of labor away from other economic sectors results in an unbalanced economy. A decrease in the agriculture sector can create a loss of



export revenue, as well as the ability for a country to meet its domestic consumption requirements. Loss of food production increases the amount of revenue a state must spend on food imports rather than accelerating internal development.<sup>47</sup>

Second, poor policy may prioritize the use of state funding towards the high growth industry, further marginalizing other job sectors. Atrophy in other economic sectors would result in a loss of revenue for development of jobs, infrastructure, and services to benefit the middle and lower classes.

Third, “Dutch disease” associated with oil, natural gas, and valuable minerals requires outsourcing skilled labor and technology for extraction rather than employing unskilled labor from within the country. This will increase unemployment and create a flight of capital to multinational corporations. “Dutch disease” generates long-term negative consequences from poor leadership and policy during an economic boom, the result of economic downturns in a primary commodity dependent economy generates more immediate and drastic consequences.

### SUSCEPTIBILITY TO SHOCKS AND DISASTERS

The global economy is unpredictable. Commodity markets are highly volatile creating booms and downturns that significantly influence economies based on primary commodity exports. Nations that rely on a few primary commodity exports for the majority of state revenue tend to centralize control over production, sales, and distribution of commodities. This type of state controlled economy runs the risk of economic instability caused by downturns in commodity market prices; loss of favorable trading partners or terms; and droughts, diseases, and disasters. The instability resulting from the loss of revenue may cause leadership in anocratic regimes during early stages of democratic transition to revert to the stability of authoritarianism and using state repression to control society.

Commodity market price shocks and loss of favorable trade status affect a state's ability to generate revenue. Loss of income may result in increased indebtedness, deterioration of infrastructure, reduction of government services, and degeneration of social conditions that foster democratic development. A significant drop in oil market prices, in the late 1970s and early 1990s, caused economic crises in Nigeria contributing to a loss of confidence in the civilian-run government and subsequent political instability. In both cases, the military took control by coup in order to restore political stability. Price fluctuations on agricultural products such as cotton, coffee, and cocoa have also affected other African economies. Regime leadership often monopolizes commodity market control by managing production, distribution, storage, and sales to maintain a steady stream of revenue for the state. State run economic institutions intentionally pass the cost of business down to the producer by underpaying producers for their product in order to gain a higher profit margin when product is sold at more favorable global market prices.

Droughts, disease, disasters may unexpectedly create a drop or lag in production or prevent the transportation of goods to export centers. Droughts and diseases affecting primary commodity export crops or livestock may result in years of lost revenue, severe unemployment and famine in addition to economic, social, and political instability. Disasters may have similar effects to droughts, but they may also introduce humanitarian needs and infrastructure damage that non-resilient economies cannot mitigate. Inability to meet a society's needs to deal with the effects of drought, disease, and disaster may increase social unrest and political instability. Lack of economic diversity decreases the capability of primary commodity dependent states to recover from the economic shocks delivered by nature and the global economy.

#### CONFLICT DUE TO THE "NATURAL RESOURCE CURSE"<sup>48</sup>

"Groups living off a lucrative resource have a vested interest in maintaining the status quo and, if need be, in prolonging conflict"<sup>49</sup>

Resource abundance seems like a blessing for poor and developing nations; however, more often resource abundance is a curse.<sup>50</sup> Relating to the natural resource curse, Paul Collier identifies a link between primary commodity dependence, especially based on lootable resources, and the risk of the initiation of civil conflict. Paul Collier and Anke Hoeffler contend that rebellion in primary commodity dependent states generates the worst form of civil war.<sup>51</sup> Competition for resources and economic greed may drive competitors to initiate and prolong internal conflict shattering any chance for a democratic transition or economic development. David Epstein's research on regime transitions indicates "the resource curse tends to make all regime categories more autocratic."<sup>52</sup> Collier stated "economic agendas appear to be central to understanding why civil wars start. Conflicts are far more likely to be caused by economic opportunities than by grievance."<sup>53</sup> He adds that empowered minority rebel factions can either interdict production facilities or transportation routes to extort cash or tax "in kind" by stealing the resource directly. Taxation in kind allows rebel to profit by selling the resources through more lucrative clandestine channels. Collier adds that a fully democratic country has a risk of conflict about 60% lower than the most partially democratic regime (anocracy).<sup>54</sup> It appears that anocratic regimes lack the resources or capability to effectively use repression like an autocratic regime or use coercion like a democratic regime. Economic greed increases the predatory nature of elite competitors, local strongmen, or armed groups. Opportunistically they attempt to exploit the weak governance of transitioning regimes to stake a claim to a portion of the primary commodity export trade.

Collier and Hoeffler argued in "Rents, Governance, and Conflict", "the risk of conflict increases the lower is the level of income, the lower the rate of growth, and the greater is the dependence on primary commodities." This cycle is self-perpetuating as civil wars cause a

state's economy to decline on average 2.2% per year relative to underlying growth path.<sup>55</sup>

Collier provides several social and economic reasons that natural resource-induced conflict is likely to erode conditions necessary for democracy. First, life becomes unpredictable.

Government and members of society tend to shorten their "time horizons". People are not as concerned with their reputations as they are with survival and immediate profiteering.

Opportunists recruit rebel followings, fund operations to initiate conflict, and derail a democratic transition for personal gain or to empower their constituents. Second, there is usually a drastic increase in criminality. Loss in trade revenue may necessitate cuts in government spending reducing services, civil service, or law enforcement. These cuts enable an increase in illegal activities. Third, disrupted markets decrease trade and revenue necessary for economic growth. Fourth, the level of rent-seeking behavior and patronage increases as the government and competitors resort to alliances and enclave operations to protect their portion of trade and associated revenue windfalls. During civil conflict corruption becomes open to less scrutiny.<sup>56</sup>

William Reno in "Shadow States and the Political Economy of Civil Wars," states "economic interests of belligerents may be a powerful barrier to the termination of conflict. They may use war to control land and commerce, exploit labor, milk charitable agencies, and ensure the continuity of assets and privileges to a group."<sup>57</sup> Primary commodity dependent states are prone to economically-motivated conflict that would undermine democratic development. This type of civil war is unique in that the war itself cannot consume the country to the level that primary commodity export trade stops. This is because both sides depend on commodity trade to finance their operations. In primary commodity dependent economies conflict may be used by armed groups to stall or reverse a democratic transition, re-arrange the balance of political power, and change the distribution of wealth. Anocratic regimes face significant risk since political

competitors can use conflict to conduct illegal economic activities, harmful to the state, to gain a political advantage. In extreme cases, internal conflict may destabilize the political, social, and economic systems to the point of state failure and warlordism.

### THE MILITARY POLITICIZATION

While political and business elites maintain the 'soft' power within a primary commodity dependent state, the military possesses the 'hard' power. In states with a strong military, early stages of a democratic transition can be perilous.<sup>58</sup> Maintaining a military to handle domestic and foreign threats may be a necessity. However, in a weak and commodity dependent state preventing the military from becoming overly involved in political and economic affairs may be impossible. There are several reasons for the tendency of militaries to intervene in politico-economic affairs of primary commodity dependent states during the democratic transition.

First, militaries founded on corruption and repression may intervene to protect benefits and favoritism enjoyed under former autocratic or anocratic regimes. Military factions may use force to prevent democratic policy changes that would limit previously sanctioned acts such as extortion, smuggling, bribery, and looting.

Second, the military may intervene to prevent a cut in defense spending. The military represents one of the few ways to rise from poverty to the middle class in primary commodity dependent societies; therefore military factions may be very protective of received benefits. A cut in defense spending may result in reduction in troop strength, pay, equipment, and training. Militaries in the Republic of Congo and Benin which had previously received abnormally large shares of the government budget conducted military takeovers after independence.<sup>59</sup> Financing democratic institution-building and improving social services may be counter to the interests of military factions. Relatively small military factions, disgruntled about their conditions of service

or lack of pay, are capable of executing a coup to rectify military shortfalls dashing the prospects of democratic development and long-term social and economic improvement.<sup>60</sup>

Third, the military may intervene in politics to facilitate appointment of a military-friendly leader to escape responsibility for corruption and repressive behavior. A well-timed military coup could provide time to silence accusations of crimes and abuses against military leadership. An open, transparent, and democratic government presents risk to corrupt and abusive practices.

Fourth, the military may intervene to settle a dispute between political factions or to prevent a regime from moving away from democratization.<sup>61</sup> "In Guinea-Bissau and the Central African Republic, military leaders took power because elected regimes had become so corrupt, ineffective, and repressive that they themselves threatened democracy."<sup>62</sup> Military intervention may be necessary to strengthen or reset a democratic transition rife with corruption and weak governance. In the Central African Republic, Congo-Barazzaville, and Niger the army disrupted democratization at a fairly advanced stage because elected leaders failed to alleviate crisis and improve executive and legislative leadership.<sup>63</sup>

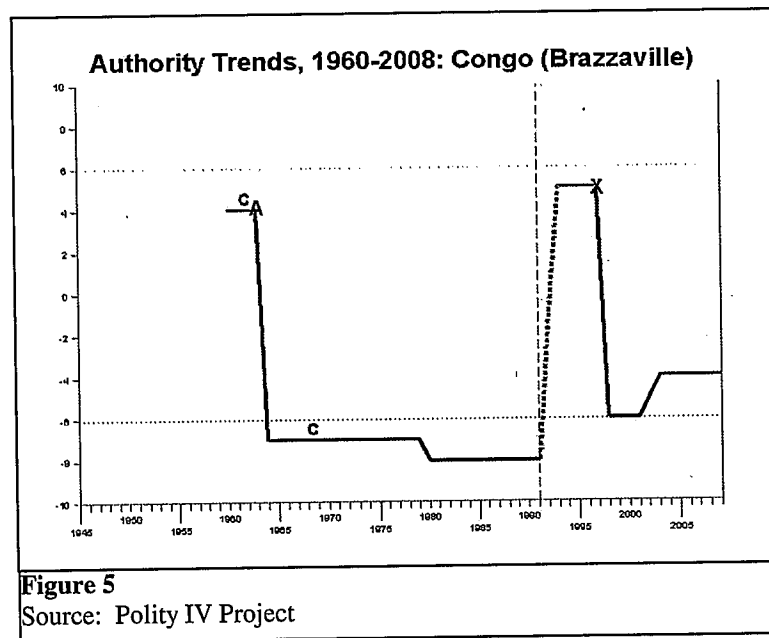
Fifth, educated and charismatic military elites may intervene to pursue personal agendas. In some Latin American countries, as well as Burkina Faso, Ghana, Gambia, Guinea, Niger, Chad, and Uganda army officers have legitimized takeovers by decrying deteriorating economic and social condition. They further entrenched power by resigning from the military, populating government position with loyal constituents, and rigging elections.<sup>64</sup>

A consolidated democracy cannot develop when the use of military power threatens individual and group rights to participate in a state's political, social, and economic affairs. Responsible civil authority over the military is necessary to limit the domestic use of military power.

## CASE STUDY: REPUBLIC OF THE CONGO

The experiment with democracy initiated by the Republic of the Congo during the 1990s typifies many of the challenges that primary commodity dependency creates for democratic transitions. During the 1990s, the Republic of the Congo should have had a better prospect for democratization than its African neighbors.<sup>65</sup> Congo was a poor, developing country by world standards, but it was one of the wealthier and more developed societies of sub-Saharan Africa.<sup>66</sup> Impressive oil export revenues and a small population equated to one of the highest per capita GDPs in Africa, \$906US in

1995.<sup>67</sup> Congo's Human Development Index score was also one of the best on the continent. For example, adult literacy rates in Congo reached 75% in 1995.<sup>68</sup> According to Figure 5, the Polity IV index score shows an upward trajectory towards democracy



during 1990-1, followed by a regression back to autocracy in 1997. Many factors contributed to this failed democratic transition. This case study will examine how primary commodity dependency influenced the social, political, and economic situation that made democratic consolidation impossible.

John F. Clark provides a thorough overview of the democratic experiment in his book *The Failure of Democracy in the Republic of Congo*.<sup>69</sup> The democratic transition in the Republic of

the Congo lasted from 1991 to 1997. A National Convention held during mid-1991 forced the autocratic leader, Denis Sassou-Nguesso, to cede power to an interim regime in order to hold presidential elections the following year. Multi-party elections were held in August 1992. Presidential nominees included Sassou, Pascal Lissouba, and Bernard Kolelas. Sassou was eliminated in early political rounds, while Lissouba eventually defeated Kolelas for President. The success of the democratic elections was quickly undermined by unfair political maneuvering to control the legislative body. Lissouba and Sassou formed an alliance to control the majority of seats in the National Assembly. Although Sassou's party held the second highest majority in the National Assembly he was insulted when Lissouba provided Sassou's partymembers only three minor cabinet positions in his administration. Sassou abandoned the coalition and allied with Kolelas, Lissouba's strongest competitor. Lissouba dissolved the National Assembly and ordered elections the following year after he refused to appoint a Prime Minister from the opposition coalition, as required by the constitution. Violence started as Lissouba's presidential guard killed three protesters demonstrating against Lissouba's political maneuvering.

In May 1993 additional fighting broke out after Lissouba's new coalition won 62 of the 125 seats on the National Assembly. Rival strongmen recruited and employed militias to pursue political agendas. The Ninja militia, loyal to Kolelas, and the Zoulous militia, loyal to Lissouba, began purging neighborhoods populated by rival supporters within the capital city, Brazzaville. On 6 June 1993, Lissouba's opponents boycotted the elections, but not before the clashes between the Ninjas and Zoulous reached the point of civil war. Mediation by neutral politicians and international diplomats brought about peace in the Libreville Accords on 4 August 1993. A re-run of elections in October for contested seats again sparked violence. A second round of fighting broke out with the majority of killing between November 1993 and January 1994. Peace



was restored again when Congolese officials arbitrated. Lissouba and Kolelas formed an agreement in 1995 in which Kolelas party would gain several cabinet positions including Department of Interior. This provided a temporary solution and Congo maintained relative peace until the next elections in scheduled for 1997.

Prior to the elections in 1997, Sassou and his militia, the Cobras, incited internal violence. Sassou and his militia instigated a clash against supporters of Lissouba's Prime Minister, Joachim Yhombi-Opango. In early May, Sassou was carried into Yhombi's hometown on a traditional chief's chair which provoked armed violence between Yhombi's and Sassou's bodyguards. Outside mediators intervened to persuade politicians to sign a pledge to refrain from violence during the elections. Two days later the peace failed when several of Yhombi's bodyguards were killed trying to pass through a blockade in Sassou's hometown. Lissouba's government forces surrounded Sassou's residence to disarm the Cobras. Disarming the Cobras failed since Sassou had reinforced his residence as an armed camp. Violence spread between Sassou's and Lissouba's militias eventually reaching Brazzaville. Many elements of Lissouba's regular army abandoned their posts or joined Sassou's militia. Kolelas and his Ninjas remained out of the fighting until Lissouba persuaded him to join with the government in September 1997. However, before Kolelas could employ his militia, neighboring Angolan army forces intervened on the side of Sassou. With the help of thousands of Angolan troops the Sassou militia seized the country's key installations in October, and by the end of 1997 Sassou took control of the government by force and ended Congo's democratic transition. Lissouba and Kolelas fled into exile while the country experienced many more years of civil war.

Several phenomena associated with primary commodity dependency identified earlier in the paper influenced the situation in the Republic of Congo before and during the democratic transition.

Congo became primary commodity dependent starting in the 1980s when oil revenues represented over 90 percent of export earnings and a large fraction of budget revenues. Oil rents reached their highest levels between 1980 and 1985.<sup>70</sup> The late 1980s drop in oil revenue caused poor economic conditions which “contributed significantly to the [public’s] disgruntlement with the first Sassou regime and even to its overthrow in 1991.”<sup>71</sup> Oil rents dropped again between 1992 and 1997, further reducing the level of economic welfare and harming the prospects for democratic transition.<sup>72</sup> Congo’s per capita GDP dropped to US\$906 in 1995 due to falling oil prices.<sup>73</sup> Negligible economic growth and decreasing national wealth (below \$1000 per capita GDP) made Congo ripe for regression to perpetual autocratic rule.

Prior to elections in 1997 rent-seeking behavior, especially in the military, returned with the prospect of Sassou returning to power. Sassou may have lost favor with some of Congolese society, but he still maintained a significant political base and support from the existing military. Militarization into Congolese politics began in 1968 and continued uninterrupted until the National Assembly in 1991.<sup>74</sup> The Sassou regime of the 1980s was very much a military regime.<sup>75</sup> Conversely, Lissouba generally distrusted the military. He knew the military retained loyalty to the Sassou regime since they enjoyed better support during Sassou’s previous administration. During the 1970s and 1980s the military growth maintained pace with the Congolese civil service.<sup>76</sup> Military and civil service served as the foundation for the patronage system. During this period the military had also grown by more than 500%, with approximately 40% being senior officers.<sup>77</sup> Military pay was remarkable by regional standards. For example,

during the early 1990s monthly pay amounted to US\$2000 for colonels and US\$4000 for generals.<sup>78</sup>

Military administrative affairs continued to be a friction point between senior military officers and politicians under Lissouba. Lissouba initially depended on his personal militia rather than the regular military, but the surge of conflict necessitated greater military action to counter the threat of rival militias. Lissouba slowly regained control over the military through selective recruitment and reorganization. Gradually, he replaced military leadership and soldiers with troops more loyal to him from regions in southern Congo.

Congo's oil wealth also caused its economy to suffer from "Dutch disease", in which all non-oil-related sectors of the economy contracted as oil revenues rose.<sup>79</sup> As "Dutch disease" reduced employment in other sectors, the state hired more citizens from the well-educated society for civil service. This created a society dependent on government spending. The government used oil income to expand urban services and invested virtually nothing in agriculture. This accelerated urbanization of unskilled labor and reduced crop production during the oil boom years.<sup>80,81</sup> The wealth from oil revenue enabled the government to secure foreign loans based on the prospect of future oil production. However, Table 1 shows the consistent drop in oil prices which reduced the government's ability to repay debt and maintain government functions.<sup>82</sup> The economic downturn and unemployment of the educated class eroded public faith in the Sassou and Lissouba regimes.

Time Period	Average Price (USD per barrel of oil)
1970-1973	15.83
1974-1979	27.76
1980-1985	51.87
1986-1991	23.95
1992-1997	19.68
Table 1: World Oil Market Prices 1960-1997 Source: US Department of Energy recreated from Clark (2008)	

Rent-seeking and patronage, “Dutch disease”, susceptibility to market price shocks in the oil commodity market, and overly militarized politics experienced during the Sassou regime created a desperate situation for the Lissouba regime. Public support of Sassou’s regime faded throughout the 1980s prompting the National Conference in 1989 to call for a transition to democracy. However, primary commodity dependency and its associated phenomenon limited Lissouba’s ability to improve social, economic, and political conditions necessary to sustain democratic development. Lissouba did little to meet the prerequisites for a successful democratic transition. Poor civil-military relations, minimal economic growth, growing national debt, rising unemployment, and loss of per capita GDP were indicators that he would not win fairly in the 1997 elections. It is not clear whether Lissouba or Sassou intended to start a civil war to retain power, but Sassou and Lissouba both acted as predatory warlord-politicians using militant forces in pursuit of personal political agendas. Clark adds that they used militias to wage economic war, marginalizing or preying on the middle class and proletariat that served as the bulwark of democratic government.<sup>83</sup>

## CONCLUSION

Regimes transitioning from autocracy to democracy must effectively manage significant social, economic, and political change to institutionalize and legitimize “good governance” and democratic processes. Democratization necessitates the expansion of opportunity and accountability to empower the middle and lower classes.

The United Nations leads the effort to set the conditions to foster democracy. Consolidated democracy requires a positive cycle of security, development, investment, and growth. Prerequisites for successful democratic transition include: economic growth, economic diversification, expansion of middle class, and improvement of national wealth. However, these

indicators are not predictive as research shows that democratic transitions occur randomly for various reasons. Democratic transitions are also twice as likely to fail since democratic development tends to be long, uncertain, and instable.<sup>84</sup> Larry Diamond cautioned that democratization is “bound to be gradual, messy, fitful, and slow with many imperfections along the way.”<sup>85</sup>

Primary commodity dependency has been one of the greatest challenges to democratic transitions. From the 1970s to the 1990s primary commodity dependency has contributed to many failed democratic transitions. Countries such as Burundi, Uganda, Ethiopia, and Mali had no chance at democratic transition, as their economies as late as the late 1980s depended on single crops for over 50% of export revenue. In Rwanda up to 1994 coffee accounted for 60-80% of export revenues.<sup>86</sup> As late as 1999 “three-quarters of the states in sub-Saharan Africa and two-thirds of those in Latin America, the Caribbean, North African, and the Middle East still depend on primary commodities for at least half of their export income.”<sup>87</sup> Globalization has facilitated expansion and diversification of many developing nation’s economies and critical infrastructure, but has also exacerbated some of the phenomena associated with primary commodity dependence.

Primary commodity dependent states still exists although to a lesser extent. As of 2004, 43 countries in Sub-Saharan Africa and the Caribbean still depended on single agricultural crops such as sugar, cocoa, coffee, cotton lint, or bananas for more than 20% of their export revenue.<sup>88</sup> States dependent on high value commodity exports such as oil, gas, or minerals are even more susceptible to phenomena associated with primary commodity dependency, especially natural resource-induced conflict. In fact, internal competition to control the supply chain of valuable resource commodities could provide the greatest threat of instability and violence for developing

countries. Economically-motivated rebellion results in great human suffering, regional instability, and degraded economic development.

Primary commodity dependent economies are affected by five phenomena capable of derailing democratic transitions. These phenomena include: rentier states and elite maintenance, “Dutch disease”, susceptibility to shocks and disasters, “natural resource curse”, and military intervention. These phenomena can be overcome with sound leadership and common political, social, and economic goals shared across society. The U.S. military has set a precedent for deploying to primary commodity dependent states to restore order, promote democracy, and protect U.S. economic interests. This trend is likely to continue in the current globally connected and resource constrained world.

Endnotes:

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- <sup>16</sup> CIFP Handbook, 1.
- <sup>17</sup> CIFP Handbook, 13.
- <sup>18</sup> CIFP Handbook, 13.
- <sup>19</sup> United Nations Democracy Fund (UNDEF) website accessed March 2010, <http://www.un.org/democracyfund/XSituatingDemocracy.htm>.
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